

MEETING SUMMARY NOTES

Finance Work Group

February 12, 2003

3:30 p.m., Mayor's Conference Room, County-City Bldg.

MEMBERS: Present - Brad Korell, Lowell Berg, Ron Ecklund, Keith Brown, Bob Hampton, Mark Hesser, Connie Jensen, Polly McMullen, Kent Seacrest, Tim Thietje, Otis Young, Larry Zink, Allan Abbott (nonvoting)

Absent - Jim Budde, Dan Marvin, Richard Meginnis, Tom Schleich, Roger Severin, Terry Werner

OTHERS: Kent Morgan, Roger Figard, Don Herz, Karl Fredrickson, Steve Masters, Michele Abendroth

AGENDA ITEMS DISCUSSION:

1. Welcome - Brad Korell, Work Group Chair

Mr. Korell called the meeting to order at 3:32 p.m. and welcomed those present.

2. Meeting Summary Notes - January 22, 2003

Mr. Korell asked if there were any changes to the "Meeting Summary Notes" from the January 22, 2003 meeting. None were suggested.

3. Public Comment Period

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

Mr. Korell then reviewed the agenda with the work group. Mr. Korell stated that Public Financial Management, who is the debt issuance consultant for Lincoln Electric System, will be brought in at a subsequent meeting to discuss how other municipalities are addressing the same issues before this group. Mr. Brown stated that Public Financial Management primarily started out as a financial advisor to the city, but their primary focus is cities and public utilities and transportation.

Ms. McMullen requested if the group could address the issue of tax increment financing, and specifically how Omaha is handling some finance issues. She recommended to bring in Ken Bunker, who is a former city attorney in Omaha and now is with Kutak Rock, specializing in public finance law. She stated that she has had the understanding that Lincoln's approach is very conservative.

4. Water and Wastewater Rate Comparison

Mr. Abbott briefly reviewed the handout titled, *Typical Monthly Water and Wastewater Bills*. Mr. Abbott stated that in comparison to city's similar in size and in close proximity to Lincoln, Lincoln ranked the second lowest in combined water and wastewater bills, behind Omaha.

5. Revised Draft of Water and Wastewater Recommendations

Mr. Korell briefly reviewed the revised draft titled, *Water and Wastewater Finance Recommendations*. Mr. Korell stated that the major changes were in regard to building in some flexibility so as not to bind the city in a position in the future that limits good judgement and taking advantage of opportunities to finance. He also pointed out that Mr. Brown had raised the issue of not being able to finance assets that have a life of less than 15 years, which is in the city charter. Mr. Brown stated that limiting your capital ability to 15 years is a concern because of the lack of flexibility. Mr. Brown also expressed a concern with the 1.50 to 1.70 range for average debt service coverage ratio in that if you have great flexibility in setting your rates, the 1.5 to 1.7 is an operating range that you can deal with; but if you do not have quite the flexibility with rates, he suggested that something higher than this would be appropriate to maintain the AA+ and Aa2 ratings. Mr. Brown suggested that he would like to see the rate changed from 1.50 to 1.70 to 1.65 to 1.75. Mr. Brown also raised another issue of what it is worth to maintain these ratings because there is a point of diminishing returns where the difference between borrowing costs between a A and AA rating is not that great. It was also suggested to add "utility" bond ratings in item #6. Mr. Hesser stated that the debt service coverage ratio question should be addressed in that it is a change in city policy.

Mr. Seacrest questioned the addition of specifying the increase in utility user rates during the 12 year period. Mr. Korell stated that the city should have the latitude to increase the rates 3 to 5% per year over the 12 year period as they need to implement the financing. Mr. Marvin stated that Mr. Giovanni's assumption in his financial projection was to have five 3% rate increases. Mr. Korell responded that the principle is to say that over the 12 year period, we do not think rates should increase more than 3 to 5% per year in order to carry out the plan.

Mr. Hesser stated that he would like to see a discussion on the merits of making a recommendation that the city look at taking water and wastewater into a private board in the same manner as LES for the following reasons: the more independent the governance is from the city, the more favorably they look upon that; and when you separate it, it is easier to take away the political potential of not wanting to do a rate increase or certain capital improvements that might impact the budget.

Mr. Brown suggested the addition of the following sentence on item #5: *Following the guidelines provided by the rating agencies for management, rates, governance, competition, economy, and so on may even enhance the rating of the water and wastewater systems.*

Mr. Korell then called for a vote regarding the adoption of this document. All group members were in agreement to adopt the document with the suggested changes and additions.

6. Report on Alternative Street Cost Projects

Mr. Abbott stated that this committee recommended that we find out what the gap is over the 12 year period, and we chose to look at Category 5. The Cost Savings and Efficiency Work Group made several suggestions on the assumptions used to make the cost estimates. Subsequently, several assumptions were taken out, including the removal of the cost of a bike trail for both the three- and five-lane sections. Therefore, sidewalks needed to be added back in to replace the bike trail. The Cost Savings and Efficiency Work Group also recommended increasing the thickness of the sidewalk. They also recommended the removal of trail/pedestrian signals, one traffic signal per mile, street lighting, water line adjustments, hydrants and manholes, retaining walls, and dual left turn lanes. That resulted in a difference of \$537,000 a mile for the three lane and \$574,000 for the five lane. That reduced the cost of the three lane section from \$2.7 million to \$2.2 million and from \$3.5 million to \$2.9 million for the five lane section.

Mr. Abbott continued by stating that the original estimate for Category 5 showed a gap of \$350 million. With the change in assumptions, we reduced the gap to \$311 million, which is still probably more money than we will be able to come up with funding for. Therefore, we looked at reducing the cinnamon areas (Tier 1, Priority Area A) to three lane instead of five lane, which saves approximately another \$20 million, which reduces the gap to approximately \$290 million. Mr. Abbott stated that next we looked at the white areas to see which projects could be deferred, which totaled approximately \$90 million and reduced the gap to \$201 million. Mr. Abbott noted that the Cost Savings and Efficiency Work Group has not agreed with deferring the five lane section to three lane; however, he believes it is reasonable to do this.

7. Financing Street Improvements: Open Discussion on Ideas to Address “the Gap”

Mr. Korell then opened the floor up to ideas on how to best proceed regarding financing.

Mr. Ecklund stated that he feels that we have to go back and look at bonding and suggested talking to the financial advisors to look at possible revenue streams. Mr. Hampton suggested looking at bonding wheel tax revenues. Ms. McMullen suggested a GO bond issued to the voters, which probably would mean a property tax increase.

Mr. Seacrest suggested exploring sales tax, which historically has not gone to Public Works. He stated that we need to look at possibly restructuring the current allocation of any tax associated with transportation and possibly issuing new sales taxes. He suggested looking at retail sales

tax, a general sales tax increase (site specific with sales tax dedicated to improvements for that project), a wheel tax increase, and occupation tax increase on motor vehicle fuel.

Mr. Ecklund suggested as “food for thought” the possibility of a city income tax.

Mr. Zink stated that he has a concern with how big the gap is and questioned who is going to address that issue. He added that if we do not come forward with reducing the costs, people are not going to support this issue. Mr. Korell pointed out that the role of this committee is to determine how to raise enough money that the community would support, then possibly go back to the efficiency work group and Public Works.

Mr. Hampton suggested special assessment districts as a financing tool. He also added SID's.

Mr. Hesser suggested looking at an increase in gas tax and the reallocation of the gas tax.

Mr. Brown suggested having Lauren Wismer at the next meeting to address some of these financing mechanisms.

Mr. Zink suggested that another source of income is continuing to increase the impact fees beyond the current five years that it is planned.

Mr. Seacrest also suggested, as a subset to special assessments, to look at maximizing the tax exempt borrowing rates.

Mr. Ecklund stated that he believed a big concern is how much street we can build in one year. Mr. Seacrest stated that is a short-term problem.

Mr. Berg stated that he is opposed to reallocating the sales tax and questioned if that is our role. He believed it is our role to come up with new revenue sources. Mr. Seacrest responded that it is city policy to not give sales tax or property tax to Public Works and asked if that policy is good for the next 20 years. He stated he believed it is fair to put it on the table because he feels that there should be a correlation between the tax and what it is used for.

Mr. Marvin stated that the budget for Public Works has increased fourfold over the last 20 years and did not believe that other budgets have increased in the same manner. Mr. Seacrest stated that he believed that other budgets have increased similarly, and that in terms of personnel, most of the growth has been in public safety.

It was also suggested to look at the possibility of using stormwater revenues.

8. Other Business

The next meeting will be Thursday, February 27th at 3:30 in the Mayor's Conference Room.

9. Adjournment

Mr. Korell adjourned the meeting at 5:15 p.m.

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